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The material for this number of the L. R. B. & M. JOURNAL has been prepared by members of the staff of the San Francisco office. It is our hope that in this number will be found something of interest to all members of our staff and to those clients and friends of the firm who are interested in our JOURNAL.

Contents

This panorama of a portion of San Francisco's waterfront in 1851 is from a composite photograph made by Martin Behrman from his famous collection of original photographs. It is reproduced by permission of Mr. Behrman who owns the copyright and through the courtesy of the Pacific Telephone & Telegraph Co., which loaned us this cut. The two-story wooden structure in the left foreground above stood on what is now the northwest corner of First and Mission Streets. Historic Telegraph Hill may be seen in the distance. From here the approach of vessels entering the Golden Gate was signaled by semaphore and flag to the Merchants Exchange.

The site of the Oceanic Building, in which the L. R. B. & M. office is located, is about the center of the body of water at the right of the picture.

The Administration of Commercial Budgets

by C. L. QUEEN

Recent discussions regarding the extent to which business firms are using budgetary methods reveal the fact that this important phase of management is not receiving the attention which it should, particularly at this time when retrenchment and economy are being emphasized.

In attempting to analyze the reasons for this, we find that many firms have at some time experimented with budgets in various ways and in many instances have regarded the results as unsatisfactory. In other cases, we find business men skeptical of budgetary methods in that they regard them as too complicated or involving increased expense which may not be justified by results.

There is undoubtedly much confusion as to just what constitutes a budget. Theoretical discussion and even published works on the subject, instead of clarifying the matter, frequently add to this confusion.

While the development of governmental and institutional budgets has undoubtedly stimulated interest in the subject, it has also led to some popular misconceptions of commercial budgets. Like all newer developments, this phase of management has sometimes been "oversold" in popular discussion and hailed as a sort of panacea or "cure-all" for business ills, without giving a proper conception of what budgetary methods entail.

The popular tendency to describe complete budgetary control systems applicable to larger corporations has created a general impression that budgetary methods are not adaptable to the needs of medium-sized and smaller concerns. This is a serious misconception.

It is difficult to generalize upon the subject of budgets, because a budget is so intimately related to the needs of the individual business. Even in two apparently similar firms, emphasis may be placed on entirely different phases of the budget problem for very good reasons. While there is such a thing as a "complete" commercial budget, it is the exception, rather than the rule, to find budgetary procedure carried out completely in the theoretical sense. There may be good reason for this. As an example, operations may be so standardized and subject to so little variation that a detailed operating budget would involve unnecessary expense, while a financial or cash budget may be necessary if the concern is operating on a low margin of working capital.

On the other hand, many concerns use estimates and forecasts which, with a little study and organization, could be extended profitably to more effective budgetary control.

Where it is not already the practice to correlate the sales budget, expense budgets, and financial budgets in such manner as to forecast the balance sheet at certain dates and the net income for the natural subdivisions of the budget period, the accountant will find, as a rule, that he can stimulate the interest of the management and greatly enhance the value of the budget by so doing.

It has been my experience that many

of the failures in attempts to develop and use budgetary methods profitably are attributable to a lack of proper administration in connection therewith.

The administration of most municipal budgets is prescribed by statute, the budget itself becoming, in fact, a law or ordinance. Institutional budgets, based, as a rule, on appropriations of specific or definitely limited income, usually include an appropriation system that practically insures reasonably thorough administration. The commercial budget, even of utilities, does not have the same measure of self-executing authority, and its effectiveness will depend in the last analysis upon the manner in which it is administered.

It is by no means uncommon when a firm is first "sold" on the budget idea for the estimates to be prepared with a considerable degree of enthusiasm and interest, which may survive even the first few comparisons of "actual" results with the estimates, but gradually the budget becomes a matter of course and is forgotten, except by the faithful clerk who copies the estimates in the proper column each month and extends the "overs" or "unders".

While the administration of a budget may be thought of as largely a problem for the management, the accountant and auditor who advises and assists in planning for budgetary control must give this phase of budgeting careful consideration. Unless the problem of administration is given consideration, even before the preparation of the budget estimates, it is very probable that the budget itself will not be prepared as it should be.

A budget should be compiled as a working tool. Hence, the first step should be an analysis of the business problem or problems which it is primarily designed to solve and a determination of how the management can and will use it. Otherwise, it is not likely to result in anything except increased clerical expense.

There are certain prerequisites for effective budgeting without which proper administration is difficult, if not impossible. Among these are the following:

1. An adequate system of general accounting, including a classification of accounts which will parallel the budget classifications and permit direct comparisons. If the business requires a cost system, it should be tied up with general accounts.
2. Adequate internal control, both in the accounting sense and as regards the organization of personnel.
3. Proper departmentalization according to the natural functions of the business.
4. Sufficient decentralization in the original preparation of budget estimates to insure proper interest and responsibility of all who are in a position to influence results.
5. The selection of the proper budget period, a most important consideration, and one frequently neglected.
6. A provision for reporting monthly, or for some other regular periods, the actual results compared with the budget estimates.
7. A definite program of executive action on the periodical budget reports to insure that everything possible is done to correct unfavorable variations from budget estimates.

In larger concerns, responsibility for the administration of the budget is sometimes provided by having a special department with an executive who is the "budget director". In some cases he is not under the chief accounting officer. My own opinion is that if accounting and financial control are prop-

erly related to the general organization, the routine administration of the budget should be handled under the chief accounting officer.

On the other hand, it is extremely important that the administration of the budget in the wider sense is not regarded merely as an accounting matter, but receives the consistent and earnest attention of the chief executives. Unless the budget is accorded this high place in the scheme of management, the resulting comparisons are likely to be regarded with either indifference or a sort of fatalism.

The administration of the budget in the sense of real budgetary control requires more than "post mortem" comparisons. One of the important considerations is some manner of determining in advance whether a given expenditure is in accordance with the budget. This requires some policy as to the extent to which budget items will be considered as limiting expenditures. In some cases, for example, a department head may be limited only to his grand total cost of operation for the period. When estimates are for a longer period than the reporting periods there should be some policy as to the amounts which can be properly expended in each reporting period.

The budget items which it is the policy to enforce may be supported by more detailed estimates, without attempting to limit expenditures to the detailed amounts specified. Too much detail is irksome, but too little detail encourages lump sum estimates, and fails to reveal possible economies.

If the budget is properly prepared and the budget policy well defined, the ordinary procedure for the authorization of expenditures may be extended to require the department, initiating the requirement for an expenditure, to show to what budget item it is to be "charged". Some person under the chief accounting officer should then be in a position to determine whether the item specified is a proper classification for the expenditure and whether the item has an available balance.

To completely carry out such a system of budgetary control it is necessary to have all purchase requisitions show the estimated cost and to provide some manner in which the budget items may be "encumbered", at the time the purchase or other expenditure is authorized. This may be done by keeping complete records similar to appropriation records, or it may be handled in a variety of ways at much less expense. For example, if one copy of all requisitions goes to the accounting department to be filed in the order of budget classification, a space can be provided thereon for carrying the available balance forward to subsequent requisitions chargeable against the same item. If absolute accuracy is desirable, estimated costs must later be adjusted to actual costs. Consideration may have to be given to outstanding commitments in presenting budget comparison on periodical statements, but this is not usually considered necessary.

In order to enforce the budget rationally and still allow for practical operating necessities, the budget policy must include a provision for referring estimates in excess of or not covered by budget estimates to a proper authority for approval. This should, as a rule, be the same authority who finally approved the original budget. The procedure should be formal enough to discourage unnecessary requests.

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Scope of a Balance Sheet Audit with Particular Reference to the Income and Surplus Accounts

By F. M. Breslin

A balance sheet audit, as its name implies, comprises the verification of the financial condition of a business at a particular date. Such an examination is probably the most common type of audit in this country at the present day, due possibly to the fact that it is the least expensive and at the same time represents the minimum requirements necessary for the furnishing of an unqualified certified statement of financial condition. It might be well to add that the term "Balance Sheet Audit" is at times erroneously applied to all kinds of limited examinations which bear no relation to the balance sheet audit proper.

Due to the widespread practice of carrying on business with funds supplied through bank borrowings, bond issues, or contributions of capital from stockholders not interested in the management, a certification of the financial condition of a business by an independent auditor is being demanded more and more by interested creditors or stockholders.

In spite of the popularity of the balance sheet audit, however, the scope of such an audit, so far as relating to transactions for the accounting period prior to the balance sheet date, has frequently been misunderstood by clients and there has even been at times disagreement on the subject among accountants themselves. A client who does not understand the limitations of the balance sheet audit may consider that such an audit is sufficient protection against defalcations and errors of any nature. It is to be stressed that such an examination is not designed to uncover defalcations unless they are of sufficient magnitude to seriously affect the financial condition at the balance sheet date, in which case their detection would normally come within the scope of the examination.

With the possible exception of the extent of the verification to be made of inventories, there is little or no disagreement among accountants generally as to the verification of the various asset and liability accounts. Many accountants have felt that if the assets and liabilities have been verified in the usual manner, the surplus account, being a balancing figure, must necessarily be correct, and some accountants go so far as to ignore the income account altogether. This point of view is illustrated by the following extract of an article on the American balance sheet audit, by Norman Readman, A.C.A., entitled "Verification of Financial Condition", appearing in the July, 1931, issue of *The Accountants Journal*, a prominent English publication:

> The verification of financial condition proper excludes the verification of any balance on profit and loss or surplus account. If the assets and liabilities of any concern are established as correct, it follows that the total balance on profit and loss account *must* be correct. Of course, it does not prove the correctness of treating profits or losses. In fact it proves nothing more than the correct-

ness of the final balance. When the verification of a company's trading operations is undertaken, then the audit becomes more of a general than special verification, such as is outlined in this article.

While it is not necessary to verify the income or surplus accounts in the sense that transactions appearing therein must be vouched, the writer feels that it is well to make a general review of these accounts. A business is in existence to make a profit, and the results of operations are a material consideration in determining the worth of the various assets and the status of the business.

The income account is assuming more and more importance as investors and creditors are realizing that the net worth of a business is meaningless if the business cannot earn sufficient profits to justify the values placed thereon. In making an investment or in lending money, among the most important considerations are the ratio of current assets to current liabilities, the degree of liquidity of the current assets, and the earning power of the company.

The importance of the income account is recognized by the growing practice of including with the certificate of financial condition a statement as to the results of operations. Such a certificate does not usually require the vouching of the transactions affecting the profit and loss account. Depending on the degree of internal check, the examination is usually limited to a review of the operating accounts and comparisons as between months and years, major fluctuations being satisfactorily accounted for. Non-operating income and expense items are analyzed in detail to determine their origin. In the absence of extraordinary conditions, such procedure, combined with a verification of the balance sheet accounts, is usually sufficient to satisfy the auditor as to the substantial accuracy of the operating results.

As regards the argument that if the assets and liabilities have been verified the surplus account, being a balancing figure, must necessarily be correct, this does not lead to a satisfactory conclusion. Although the surplus account is an intangible account, it may be the means of concealment of assets or liabilities which should appear on the balance sheet. Therefore, whether or not the audit certificate covers the income account, it would appear to the writer desirable to supplement the examination of the various asset and liability accounts of which a balance sheet audit primarily consists by at least such a review of the operating results as outlined in the preceding paragraph.

The cost of buildings may be verified by reference to vouchers, but a value based on such cost means little if the building is either partly or entirely abandoned. The adequacy of the depreciation provision depends upon the use made of equipment and the repair policy in effect. The ratio of gross profit to sales may indicate an over or undervaluation of inventories, padding of accounts receivable, or possible omission of liabilities. Comparisons of expenses by months and by years may show up extraordinary expenses, possibly capital items erroneously charged to expense, or even items either deliberately or inadvertently omitted from the liabilities. Fees paid to attorneys may give a clue to legal suits pending, while an analysis of the interest expense account may provide a clue to unrecorded liabilities.

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The General Corporation Law of California, 1931

By A. W. Helvern

Having principally in mind the protection of creditors and others dealing with corporations, and apparently distrustful of corporate entities, the early California pioneers promulgated for the government of corporations a very restrictive and inflexible code of laws. Subsequent attempts to correct this situation by legislative amendments did not greatly improve the situation. The limitations imposed by the State Constitution made it impossible for the Legislature alone to remedy the principal defects.

California corporation laws, thus handicapped, failed to meet the advancing needs of modern business and financial conditions. To avoid the burdensome restrictions imposed on corporate management and financing of California corporations, a constantly increasing number of business men sought incorporation of their enterprises under the more liberal laws of other states. This unfortunate state of affairs became of more general interest as the ownership of corporate securities was extended to an increasing number of individuals.

Finally, in November, 1930, the people, by referendum vote, amended Article XII of the State Constitution to remove the objectionable restrictions on corporate organization and government and permit the Legislature to enact such corporation laws as changing conditions may from time to time require.

Following the constitutional amendment, the California Legislature at its 1931 session systematically revised and reconstructed the entire body of California corporate law. The resulting General Corporation Law of California, while not perfect, is nevertheless a praiseworthy piece of legislation, conscientiously undertaken and carried through. While practically as liberal as the laws of Delaware and Nevada in the flexibility of its provision, it nevertheless protects the interests of creditors and preferred stockholders. It recognizes the principal of majority rule in stockholders' control and grants extensive powers to directors, but it also makes reasonable provisions for preserving the rights of minority stockholders.

The shareholder in a California corporation no longer has a partner's liability without a partner's rights. A corporation may adopt almost any type of capital structure and may change it when it so desires.

In the following paragraphs some of the more important provisions of the law are summarized, emphasis being given to features of interest from the standpoint of corporation accounting.

These comments relate only to general business corporations and do not attempt to consider specific provisions applicable to banks, building and loan associations, public utilities, etc., which are in some respects subject to other statutes.

Corporate Organization and Government

The issuance of capital stock must be provided for in the articles of incorporation, and all authorized stock

issues must be described therein, stating distinctions as to classes, privileges, and restrictions. However, in order to permit the corporation to readily take advantage of changes in stock market conditions, the articles may delegate to the directors the power to fix or alter dividend rates or redemption prices of new stock issues.

The amendment of the articles requires the approval of stockholders representing a majority of the voting power, unless such amendment is for the purpose of changing the preferences or restrictions in respect of issued shares or to provide for the levy of assessments on fully paid shares, in which case it must have the approval of the holders of at least two-thirds of the issued shares of each class of stock.

In protection of the rights of the holders of non-voting stock, it is provided that mergers or consolidations must be approved by stockholders representing two-thirds of the issued and outstanding stock of each class. Stockholders who object to such organic changes may, upon written demand therefor, receive in cash the fair value of their shares determined either by agreement or, upon petition to the Superior Court, by the majority award of three impartial appraisers.

Issuance of Capital Stock

One of the most important changes in the law, from the standpoint of corporate financing, is the removal of restrictions upon the stock structure which formerly made it necessary for all shares of stock to have equal voting rights and to be of the same par or no par value. Shares may now be issued in various classes, series, or kinds, of differing par values or of mixed par and non-par values, with provisions granting full, limited, or no voting rights, and differing as to preference, redemption terms, and other rights.

In order that stockholders may be properly informed, it is required that all authorized issues of stock must be described in the share certificates. Certificates issued for partly paid shares are further required to contain a statement of the amount remaining unpaid and the terms of payment.

The law states that "unless otherwise provided in the articles, the board of directors may issue shares, option rights, or securities having conversion or option rights, without first offering the same to shareholders of any class or classes". It is claimed that this provision for abrogation of the preemptive rights of existing shareholders eliminates uncertainty and will facilitate financing. It is conceivable, however, that it might operate to the disadvantage of existing shareholders and particularly of minority interests.

The "Uniform Stock Transfer Act", with some modifications, is incorporated in the new law and, to a considerable extent, makes stock certificates of both domestic and foreign corporations negotiable instruments.

Rights and Liabilities of Stockholders

One of the most important changes in the law is the elimination of the stockholders' former unlimited proportionate liability. The only liability which a subscriber or a person to whom shares are originally issued incurs is for payment of the full agreed consideration for his shares, except, of course, for assessments which may be levied in the event that the articles of incorporation authorize such levy. For-

merly, business corporations by adopting as the last word of their corporate name the word "Limited" or "Ltd.", could thus exempt their stockholders from the unlimited proportionate liability. This provision, being now unnecessary, is omitted from the present law.

The rights of minority stockholders have been protected by the retention

Management and Control

The directors, of which there shall be at least three, need not be stockholders. They are elected, and may be removed, by the vote of stockholders holding a majority of the voting power. The directors elect the corporate officers and generally control their activities.

Good faith is required of directors

SAN FRANCISCO IN 1864

Photograph of an old lithograph said to have been prepared from pictures taken from a captive balloon. It is considered quite accurate in detail. By permission of Martin Behrman, S. F. Photo Copyrighted.

of cumulative voting and the denial of voting rights to treasury shares.

Voting trusts are authorized, but may not be made irrevocable for a greater period than twenty-one years, and unless otherwise agreed may be terminated at will by the holders of a majority of the beneficial interests of the trust.

and officers, but if full disclosure is made of the facts, they may, without violation of their fiduciary trust, personally enter into transactions with the corporation. However, one source of temptation which might result from the foregoing is removed by reason of the fact that corporations are prohibited from making loans to or guaran-

teeing obligations of directors or officers. Unsecured loans to stockholders are also prohibited, but such prohibited loans or guarantees are permitted, however, if approved by the holders of two-thirds of the shares of all classes of stock other than the shares held by the benefited director, officer, or stockholder.

Formerly the Directors were not required to submit financial statements except upon the written request of at least ten per cent of the stockholders. Under the law as amended, unless otherwise expressly provided by the by-laws, the directors, not later than one hundred and twenty days after the close of the corporation's fiscal or calendar year, are required to have prepared and sent to the stockholders a balance sheet as at the closing date of the last such year, together with a statement of income and profit and loss for the year ended.

If a full and adequate financial statement has not been submitted within six months, the holders of five per cent (or more) of the shares may, by written request to the corporation's officers, compel the delivery to them of a certified statement in the required form. However, except upon order of the Superior Court, for good cause shown, the corporation shall not be required to prepare more than one such statement in any one year.

THE SKYLINE OF SAN FRANCISCO, 1931.
A view taken with a telescopic lens from Yerba Buena Island. Courtesy of Californians, Inc.

These financial statements are required to be certified to by either the president, secretary, treasurer, or a public accountant.

The law requires that such annual report must contain the following:

1. A summary of assets and liabilities.
2. The amount of dividends paid or declared during the past year.
3. The condition as to the corporation's surplus or deficit, and how acquired or created.
4. The number of shares issued and outstanding, together with any such particulars as are necessary to disclose the general nature of liabilities and assets of the corporation.
5. The names and addresses of all the corporation's principal officers and directors.
6. In case any assets are stated at values other than cost to the corporation, the bases of such values shall be indicated.
7. The statement of income and profit and loss is required to be prepared in the form ordinarily used by accountants for the particular kind of business carried on by the corporation.
8. Assets of the corporation consisting of shares in or amounts owing from subsidiary companies must be set out on the balance sheet separately from all other assets distinguishing, respectively, the said shares and indebtedness.
9. Debts owing by the corporation to subsidiary companies must be set out in the balance sheet separately from other liabilities.
10. There shall be a statement showing to what extent the profits and losses of subsidiary corporations have been taken into account in arriving at the profit and loss of the holding company, as disclosed in its accounts.

Any officer, director, employee, or agent of a corporation who knowingly issues or publishes any report respecting the corporation or its operations which is false in any material respect, or knowingly makes false entries in the books or alters or conceals any book entries with intent to deceive, shall be liable for damages to the corporation or any person injured thereby who relied thereon.

Dividends

Dividends may be declared in cash or property out of earned surplus and, despite impairment of stated capital, out of net profits earned during the next preceding accounting or dividend period, which shall not be less than six months nor more than one year in duration.

Similar dividends may also be delared out of paid-in or contributed surplus, or surplus arising from reduction of stated capital, but only upon shares entitled to preferential dividends and with the further provision that the stockholders receiving them shall be given notice of their source prior to or concurrently with their payment.

If the value of the net assets has been impaired to an amount less than the aggregate preferential claims of stockholders on liquidation, no dividends shall be declared or paid except upon such preferential shares until the impairment is removed. No dividend shall be declared when there is reasonable ground for believing such declaration will result in making the corporation insolvent or unable to meet its debts and liabilities as they mature.

No dividends shall be declared out of the appreciation in the value of the corporation's assets not yet realized.

Stock dividends may be declared out of earned surplus and also out of paid-in or contributed surplus or surplus arising from reduction of stated capital, provided that notice be given to the recipient stockholders as to the source of the dividends prior to or concurrently with their payment.

The amount of surplus out of which stock dividends are declared must thereupon be transferred to stated capital and the amount of such trans-

fer must be at least equal to the sum of the par value and the lowest redemption or liquidation price, respectively, of the par value shares and preferred non-par value shares, and the fair value of the common non-par shares declared as the dividend.

Corporations are permitted to split up or subdivide their shares into a larger number without any transfer of surplus to stated capital provided that upon the issuance of the additional shares the recipient stockholders be given notice of their book value prior and subsequent to the subdivision.

An important new section of the law provides that a corporation may by authority of a resolution of its board of directors approved by the vote or written consent of the stockholders representing a majority of the voting power on such proposal, sell its entire assets, and with similar authority and approval may distribute the proceeds to the stockholders. Dissenting stockholders shall be entitled to compensation as agreed upon or as fixed by a court. Formerly the sale of the entire assets of a corporation required the consent of the holders of two-thirds of the issued stock.

Stated Capital

In an attempt to clarify the confusion existing in legal definitions of "capital" and "capital stock", every corporation is now required to carry on its books a "stated capital" which is defined as including—

(a) the aggregate par value of the outstanding shares and treasury shares having par value, provided that any differences between par value and the agreed consideration for par value shares issued for less than par as fully paid up, shall be charged against the par value of the shares and the net consideration carried as its stated capital represented by such shares

(b) the aggregate amount or value of the agreed consideration for outstanding and treasury non-par shares, except any portion designated by the directors prior to issue to be paid-in surplus, provided that if such shares are preferred as to assets on liquidation the amount to be credited to paid-in surplus shall not exceed the consideration received over the lowest aggregate liquidation price of such shares

(c) amounts transferred from surplus to the stated capital account by resolution of the board of directors.

Stated capital as thus constituted cannot be reduced, even on redemption, conversion, split-up or consolidation of shares, or otherwise, except by resolution of the board of directors approved by the holders of shares representing a majority of the voting power. The resolution of the board of directors must state which of the methods provided by the statute for adjusting par value shares to correspond with stated capital is to be followed.

Surplus resulting from the reduction of stated capital shall be transferred to a special surplus account and may be applied by the directors as follows:

1. If there be but one class of shares outstanding, it may be distributed pro rata to the stockholders.
2. If there be preferred shares subject to redemption, it may be applied to the redemption or purchase of such preferred shares at not to exceed their redemption price, or to the payment of dividends upon such preferred shares in the order of their priority.
3. If there be no preferred shares subject to redemption, it may be applied to the purchase of any other preferred shares on reasonable terms, not exceeding the lowest liquidation price thereof under a pro rata offer to all the holders, or to the payment of dividends upon preferred shares in the order of their priority.

4. In any case, such surplus may be distributed pursuant to resolution adopted by vote of the holders of two-thirds of the shares of each class outstanding, but if the shareholders or directors do not dispose of such surplus in any of the above ways, it shall be subject to disposition by the board of directors in the same manner as paid-in surplus.

The southwest corner of Montgomery and Pine Streets San Francisco, in 1860. By permission of Martin Behrman, S. F. Photo Copyrighted.

At least fourteen days before any distribution of surplus arising from reduction of stated capital, except by way of redemption of shares, dividends upon preferred shares, or stock dividends, a certificate must be filed with the Secretary of State containing a financial statement setting forth the condition of the corporation's affairs and stating that the proposed distribution will not reduce the fair value of the corporation's assets below the aggregate of its debts plus the amount, as reduced, of the stated capital.

There is another restriction on reduction of stated capital which will undoubtedly raise many questions. It is the provision that stated capital may not be reduced "to an amount less than the aggregate amount of its debts and

"THE WALL STREET OF THE WEST."
Montgomery Street, San Francisco, looking toward Market Street from California Street, 1931. The next street corner is Montgomery and Pine, which may be contrasted with the picture of the same corner in 1860. Courtesy of Californians, Inc.

liabilities plus the aggregate par value of all shares having par value and the greatest aggregate liquidation price of preferred shares without par value to remain outstanding after such reduction"!

This conception of stated capital may clarify its definition from a legal standpoint, but it undoubtedly raises many accounting questions. It appears to be the intention to eliminate "stock discount" from the balance sheet of California corporations. Aside from that, it is obvious that "stated capital" may mean a variety of things, but just what it has to do with the "debts and liabilities" of the corporation when its reduction is considered is by no means clear.

Effect of Purchase and Resale of Corporation's Own Stock

With certain specific exceptions, relating principally to adjustments of claims or controversies with stockholders, purchase of dissenting stockholders' shares, and the redemption or conversion of its capital stock, a corporation may purchase its own shares or the shares of companies which it controls only from earned surplus. However, it may not make such purchase of its shares in case there are reasonable grounds for belief that the corporation is unable or by such purchase will be rendered unable to satisfy its liabilities.

The law specifically provides that when a corporation acquires its own shares by purchase out of earned surplus, the earned surplus shall be reduced by an amount equal to the purchase price thereof, but the stated capital shall not be affected. The shares so acquired apparently become treasury stock. Treasury shares shall not carry voting or dividend rights, and unless otherwise provided in the articles, may be disposed of and the amount of consideration received shall be added to stated capital or paid-in surplus.

Shares of the corporation's own stock acquired by gift, bequest, or upon the distribution of the assets of another corporation, shall be restored to the status of authorized but unissued shares, but the stated capital shall not be reduced thereby. It appears that such shares may be reissued, although the law is somewhat indefinite with regard to the accounting procedure that should be followed in connection therewith.

To an accountant, one of the most interesting results of the changes in the corporation law is the accounting required in connection with the purchase by a corporation out of its earned surplus of its own shares and their subsequent resale. Earned surplus must be reduced by the amount of the purchase price of the shares, but upon the resale of such treasury stock, earned surplus may not be credited with any part of the proceeds, which must be credited either to stated capital or paid-in surplus.

The section covering dividends apparently prohibits the declaration of dividends out of paid-in surplus except upon shares entitled to preference, but under another section, if the proceeds from the sale of treasury stock have been credited to stated capital, it appears that by reducing the stated capital the surplus arising from such reduction may be distributed pro rata to ordinary stockholders, provided there be but one class of shares outstanding.

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The L. R. B. & M. Journal

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The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvements; to encourage and maintain a proper spirit of cooperation and interest and to help in the solution of common problems.

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Albert Charles Guy

We take pleasure in announcing the admission to partnership of Mr. Guy as resident partner at Cincinnati.

Mr. Guy was born at Ledbury Hall, Wales. He acquired his accounting training as an articled clerk and staff member of some of the larger accounting firms of Great Britain, coming to this country as a member of the Army Ordnance Division under Captain J. C. W. Reith (now Sir John) in connection with ordnance matters as a chief supervisor in the development of departments responsible for the inspection of ordnance and for the general and cost accounting. These facilities were turned over to the United States authorities when we entered the World War, Mr. Guy joining the staff of our Philadelphia office in 1918. His admission to our firm is a well earned recognition of his faithful and efficient work as manager of our Cincinnati office since its opening in 1923.

Prevention of Failures Among Stock Brokers

By D. A. Webster

One of the most striking phenomena in the financial world during the two years which have elapsed since security values started to decline in the Fall of 1929, has been the relatively small number of stock brokerage firms of any size or importance which have failed. This is remarkable when one considers the rapidity and extent of the deflation of security prices during this period and the considerable number of banks, both large and small, which have closed their doors. It is all the more remarkable when one recalls that at the time of the October, 1929, crash in Wall Street, the general impression was that this was merely a result of undue inflation in security prices and that business as a whole was in a sound condition. The contrary, however, proved to be the case; business was found to be on an unsound basis to a greater extent than had been generally realized, and a large number of banks have since failed. Among Wall Street houses, however, where one would have expected numerous failures, they were relatively few. Several of the possible reasons for this more favorable experience on the part of stockbrokers are considered in the following paragraphs.

For many months prior to the beginning of the stock market collapse, the banks, followed by the brokerage houses, had gradually increased their marginal requirements, as prices mounted, so that when the crash came, the equities in customers' accounts and in brokers' loans from banks probably ranged anywhere from 30 to 75 per cent. of the collateral security values, depending on the class of securities carried. These abnormally high margins enabled the brokers, in most cases, to liquidate their customers' holdings in the rapidly declining market which followed without loss to themselves in the event that customers failed to promptly respond to margin calls. If it were not for this fact, it is safe to state that the list of brokerage failures would have been much larger and, no doubt, many banks would also have suffered financial embarrassment.

If the causes of the brokerage failures during the past two years were disclosed, it would probably be found that such failures were largely occasioned by losses sustained by the brokers through investments in securities and participations in syndicates, etc. No doubt, some brokerage firms sustained substantial losses on customers' margin accounts through carelessness or dishonesty of margin clerks. Certain customers' accounts may have reached a point where they were not merely undermargined, but were only partially secured, and the fact was not known to the broker. The writer knows of one case where a broker sustained a loss of over $100,000 on one account which was allowed to become partially secured through the desire of a margin clerk to help a client who had met some market reverses. The certified public accountant who is making an examination on which the response to a stock exchange questionnaire is based would of course note all partially secured accounts and so treat them in the re-

sponse to the questionnaire and also report them to his client. In some cases, partners also may have permitted certain preferred customers' accounts to become inadequately margined or partly secured, which condition, in the event of a rapidly declining market, resulted in losses to the firm. Some of these losses on customers' accounts may have contributed to failures, but it is doubtful if they were, in many cases, the chief cause thereof.

For some years past, the New York Stock Exchange has been endeavoring increasingly to keep itself informed concerning the financial position of its members so that both customers and fellow members may be assured of the ability of the house to meet its obligations. The lead of the New York Stock Exchange has been followed by other leading exchanges in different parts of the country. This has been accomplished primarily by requiring, periodically, from each member responses to questionnaires issued by the exchanges of which they are members. In recent years the more prominent exchanges have sent out two questionnaires a year to each member. These do not go out at the same time to all members. The questionnaire, as the name would imply, represents a series of questions pertaining largely to the ledger balances of assets, liabilities and capital, as well as the security values thereagainst. The limited space for this article does not permit consideration of each question in detail. It is through the medium of the questionnaire, however, that the exchange ascertains the financial condition of the broker, particularly as to his liquid working capital. General questions are also asked of the broker concerning his practice with respect to fully paid (safe-keeping) securities of customers and also customers' securities in excess of reasonable marginal requirements. Moreover, the broker is requested to furnish information with reference to contingent liabilities, accounts which the partners may have in other brokerage offices, etc.

In some instances it has developed that brokers, with impaired working capital, have pledged customers' safe-keeping securities as collateral for bank loans. This improper practice has probably occurred more often with respect to securities carried for customers in excess of reasonable marginal requirements. Such acts are, of course, contrary to the rules of the New York Stock Exchange and where this condition is observed by the certified public accountant making an examination for the broker incident to the preparation of the response to the questionnaire, it is his duty to make a disclosure thereof in submitting the response to the questionnaire.

Since member brokers are required to answer exchange questionnaires usually twice each year, the question naturally arises as to how a broker, in an apparently good financial condition at one questionnaire date, can suffer such an impairment of working capital as to result in failure either before or about the date of the following questionnaire. This question may be answered by either one of the following two reasons or a combination of both:

(1) The questionnaire which disclosed a sound financial condition may have been incorrectly prepared to conceal a weak financial position.

(2) If the firm held large blocks of securities either as investments or for customers' accounts, or were involved

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The Lower of Cost or Market as a Basis of Inventory Valuation

By W. G. Draewell

Although in practice there is still a noticeable lack of uniformity with respect to the basis for valuation of inventories, the one known as "the lower of cost or market" is generally recognized as the soundest in principle.

Broadly speaking, "market" as used in the term "the lower of cost or market" is essentially replacement cost, meaning repurchase or reproduction cost. In general business usage, market is all too frequently construed as meaning selling market exclusively. However, market predicates a complete transaction which involves purchase as well as sale. It is from the standpoint of purchasing or its equivalent in production that market is contemplated herein. If this interpretation is kept in mind, the common confusion with selling market will be avoided. There are, of course, cases in which repurchase and selling market are identical as, for instance, in the inventories of marketable securities and listed commodities in the hands of others than the producers.

"The lower of cost or market" implies a comparison between cost and market values and the adoption of the lower. It is doubtful, however, whether in all or even the majority of cases where this basis of valuation is used such comparisons are actually made. Aside from the usual exceptions to any rule governing a given set of circumstances, the general trend of business will indicate which of the two is the lower. For example, a period of growth and expansion is ordinarily accompanied by increasing prices, and during such a period it is probable that in most cases actual cost is less than market. Conversely, during a period of depression the price trend is downward and, therefore, it is quite probable that market is less than actual cost. However, in any case it is essential that a sufficient investigation be made in order to determine which is the lower.

Given adequate cost records, the valuation of inventories at cost is somewhat of a routine matter. A more difficult task is that of determining market values, and the subsequent paragraphs will be devoted to that phase of the subject.

Market value, as stated earlier, constitutes replacement cost. The meaning of replacement cost and the basis for its determination in a specific case depends upon the nature of the goods. For this purpose inventories fall into one of three rather clearly defined classes, namely:

1. Primary commodities; such as the products of the mining, lumber, fishing, and agricultural industries.
2. Manufactured goods; representing primary products in converted and/or assembled form.
3. Merchandise; that is to say trading goods whether primary or manufactured products.

Obviously too, the market value or replacement cost is controlled by the ownership of the goods. For instance,

primary commodities in the hands of the producer will have a certain replacement cost, whereas those same commodities in the hands of the manufacturer or the merchant will have a replacement cost representing the producer's selling market. The same distinction exists in the case of manufactured goods in the hands of the manufacturer and in the hands of the merchant.

In the case of primary commodities in the hands of the producer, the term "market" in the sense of "buying market" is not applicable, and replacement cost, generally speaking, will be actual cost, provided labor and overhead costs are not excessive because of abnormally low production or other special factors.

In most inventories, and particularly those of retailers, one is confronted with the problem of valuing merchandise which is wholly or partially obsolete. The values assigned to such goods should not be greater than a conservative estimate of the net realizable value, and preferably should be such that a normal gross profit may be realized.

In general, market value or replacement cost for the merchant is either repurchase cost or a value which will yield a normal percentage of gross profit through future sales.

Replacement cost as applied to manufactured goods inventories is somewhat different, for here it requires the determination of reproduction cost based on the current material and labor prices and overhead expenses. During a period of declining prices, current cost should be substituted for actual cost in order to obtain a true reproduction market price. If the cost accounts are adequate there should be little difficulty in substituting the current cost for the actual cost and adjusting the values accordingly. The fundamental principle remains unchanged even if cost records are inadequate. Under such conditions the problem is that of constructing actual or at least approximate cost, and to do so within practical limits may require considerable ingenuity.

There are certain types of manufacturing industries which produce various grades of products and for which it is impossible to ascertain specific costs as between grades. Among such industries will be found that of oil refining. The principal raw material is crude oil, which through a series of processes produces the various grades of gasoline, lubricating oils, and other oil products. It is generally impossible to determine the amount of raw material and refining costs of the individual products. Certain companies operating in this field have not considered it feasible to treat any single product as the primary one and all others as by-products. Consequently, the expedient was adopted of spreading the entire cost of production among the various products and grades on a basis which would yield a uniform percentage of profit for all products. This was accomplished by valuing the entire production for the period at selling market prices, and allocating production costs to the respective products according to the ratio of the selling value of each to the total selling value.*

Similar methods may also be employed for certain branches of the food

* In Article 107 of Regulations 74 the Treasury has approved for income tax purposes the principle of the method above indicated.

packing industry. If, as is customary, a single cannery is used for packing several varieties of fruits and vegetables, it is usually impossible to allocate specifically any but the direct costs; and as between grades of a particular product an accurate determination of costs is practically impossible. Therefore, some division of indirect costs must be made as between products, and then the total cost of each product must be applied to the various grades of that product. As a matter of practice for canneries of this sort, the indirect expenses are usually distributed among the various packs on an arbitrary basis, and, with few possible exceptions, no allocation of costs is made as between grades. As a result, the valuation of such inventories is rather arbitrary, and as between concerns will vary anywhere from the lower of approximate cost or market to estimated net realizable value. Nevertheless, some acceptable allocation of costs must be made if the inventory is to be valued at the lower of cost or market. A satisfactory and probably the most equitable basis is that of distributing indirect expenses among the various packs according to the ratio of the selling price of each to the total selling price of the entire production, and further allocating the cost of the different products among the respective grades according to the ratio of the selling price of each grade to the total selling price of the respective products. The suggested treatment of indirect expenses will often relieve certain products, which have been introduced primarily to absorb idle season expenses, from the disproportionate cost which may easily result from the allocation of indirect expenses on some unit basis.

Another illustration of a seasonal product which does not permit of specific unit cost determination is found in the salmon canning industry. In this business there are many uncertain factors which influence costs. Preparation for the fishing season involves heavy expenditures. Thereafter success or failure depends largely upon the run of the fish (quality as well as quantity) and the elements. Once the operations are launched, the packer has little or no control over events, and he has practically no option as to the grades of fish which will be packed. Therefore, it would seem logical to consider the operating and packing costs as applicable to the season's pack as a whole and not apportionable among grades on a unit basis. If the latter were attempted the results would frequently show that the cost of pink salmon (the cheaper grade) exceeded the selling price, while on the other hand, red salmon (which is of high quality and ordinarily commands more than double the price of pink salmon) would reflect a cost allowing for a wide margin of profit. Here again, the most practical method for developing costs consistent with sound accounting practice is a distribution based upon the ratio of the selling price of each grade to the total selling price of the entire pack.

Strictly speaking, replacement cost as such cannot be determined for seasonal products. Therefore, the closest approximation to what is known as market value is a value which will yield a normal rate of gross profit based upon experience.

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Keeping Step with Progress in Accounting Systems

By C. L. Queen

A practical knowledge of accounting systems is an essential part of the equipment of the modern accountant and auditor. He must study the system of the client in order to prepare the audit program and to conduct many features of the work.

Upon the system depends, to a great extent, the effectiveness of the internal check, which in turn largely governs the degree of verification and the scope of much of the detailed work in an audit. Only by studying the client's system can the auditor make the best use of records and data available in the client's office and avoid unnecessary work in making analyses and compiling schedules.

The practical knowledge thus gained of an individual client's system requirements, amplified and broadened by contact with other systems and a general knowledge of modern developments in the field of office and accounting methods, places the auditor in the best position to advise the client soundly on all phases of system planning and revision.

The accountant and auditor loses an opportunity to render the fullest service to clients, if he fails to advise a client of conditions in his accounting system which should be or could be improved.

The suggested change may be one which will provide more accurate, more detailed, or more readily available information; it may improve the internal check or safeguard the handling of cash or securities; or it may make for speed or economy. In any case, the client will usually welcome the auditor's recommendations.

One of the important phases of system work with which the accountant and auditor must be familiar is the development and application of mechanical accounting equipment and improvements in office equipment generally. Many concerns that would insist upon having the most up-to-date equipment in the factory or the delivery department, have failed to take advantage of the great progress made in the development of accounting equipment.

It is not possible in most concerns for the office manager to keep fully abreast of developments in this field, and even the highly developed service departments maintained by the manufacturers of such equipment do not always have an opportunity to study its application equal to that which is afforded the accountant in his contacts with clients.

Mechanical accounting equipment has been perfected in recent years to a point where there is equipment adaptable to almost any accounting or clerical requirement.

These machines now combine recording devices with a variety of computing and calculating features of great flexibility. Electrical operation, continuous feeding, and visibility of recording have greatly increased speed and ease of operation. The ability to make an almost unlimited number of copies, combined with ingenious col-

(*Continued on page* 26)

Federal Income Tax Notes

The following cases illustrate some of the pitfalls which beset the path of the uninitiated in matters involving federal income taxes and the desirability of seeking and heeding competent advice before proceeding with transactions which may affect income taxes.

In November, 1922, the A company had among its assets certain shares of stock of the B company which it distributed in kind as a dividend pro rata to its stockholders. No cash dividend was declared by the A company as a part of this distribution.

The shares of the B company so distributed had been acquired by the A company subsequent to 1913 at a cost of $110,000 but the value of the shares at the date of distribution was only $35,000. The A company claimed that when it distributed the B company shares to its stockholders it sustained a loss of $75,000 which it was entitled to deduct in its income tax return for 1922.

The Commissioner of Internal Revenue disallowed the deduction of this loss; the United States Board of Tax Appeals sustained the Commissioner; and a Court of Appeals has recently agreed with the Board's decision, on the ground that the loss was not "from a sale or other disposition" of the stock upon which a loss may be allowed under the statute. The Court of Appeals points out that there was no price agreed upon or paid for the stock and holds that the words "other disposition" relate only to such dispositions of property as are like sales. The court also said that the stock was not distributed in payment of any cash dividend previously declared by the A company and the inference is that, had the A company declared a cash dividend of $35,000 payable in shares of B company stock at the market value, the A company would have been entitled to the deduction. The transfer of the stock would then have been a "sale or other disposition" in liquidation of the liability created by the dividend declaration.

The X Corporation acquired the capital stocks of the Y and Z Corporations for cash, the consideration being based in part upon an appraisal of the fixed assets of the Y and Z Corporations, which appraised value was greatly in excess of the book value of these assets.

Depreciation and losses on retirements subsequently claimed by the X Corporation in its consolidated income tax returns, based on the appraised values of the assets of its subsidiary companies, have been consistently disallowed by the Treasury, notwithstanding that the cash consideration for their capital stocks was based upon the appraised values.

Had the assets of Y and Z Corporations been acquired instead of the capital stocks, the Government would have allowed depreciation and losses on retirements on the basis of the appraised values representing cost to the X Corporation.

John Doe, a married man residing in California, in 1927, filed a joint income tax return for himself and Mrs. Doe, reporting therein all taxable income received by them. As the result

of an amendment of the California Civil Code, affecting the community property of husband and wife, Mr. Doe and his wife became entitled to file amended income tax returns and claim for refund based upon the division between them for tax purposes of their community income received after July 29, 1927.

However, in 1929 a revenue agent examined Mr. Doe's 1927 joint return, made a few minor adjustments, and induced the taxpayer to sign a final closing agreement in respect of the tax for the year in question. Mr. Doe forgot about his execution of the closing agreement and later filed a claim for refund on the community income basis.

The Government admitted that Mr. Doe was equitably entitled to the refund, but was compelled to deny the claim because the taxpayer had signed the final closing agreement.

Commercial Budgets

(*Continued from page* 5)

The final requirement for successful budget administration is one beyond the range of the "mere accountant", because it calls for careful analysis of the facts presented by the budget comparisons and prompt executive action to improve results. Certain comparisons should be provided more currently than can be done on monthly statements. Sales should be compared with budget estimates daily or weekly in many lines. The accountant can aid greatly in this phase of budget administration if he is skillful and resourceful in his presentation of budget comparisons and constantly seeks to improve their presentation, both as to currency and as to form.

A common fault in budget administration is the failure to revise the budget estimates and forecasts in accordance with changing conditions. It is the exception rather than the rule that all the conditions upon which budget forecasts are based are realized. For a firm not to adjust its budget to meet changing conditions is almost as foolhardy as for a navigator swept off his bearings by storms not to alter his course.

These are a few of the problems of budget administration which, if given proper consideration, will frequently change the conception and practical effect of the budget from that of a mere "drag" or brake on the business to a chart of its course to greater profits.

Scope of Balance Sheet Audit

(*Continued from page* 7)

Each particular audit has its own problems, but in all cases the key to an intelligent audit lies in the knowledge of the peculiar problems of the business, and such knowledge can be obtained by an intelligent study of the operations.

Corporation Law of California

(*Continued from page* 16)

The latter procedure would seem to accomplish indirectly that which is directly prohibited by the dividend section.

Foreign Corporations

The only changes with respect to foreign corporations made by this law were minor ones relating to service of process and change of agent.

Bases of Inventory Valuation

(*Continued from page 22*)

The illustrations with reference to manufactured goods inventories cited in the foregoing paragraphs were intended to apply to businesses engaged exclusively in manufacturing. Frequently, however, the manufacturer is also producer and merchant, not only in the industries mentioned, but in numerous other lines. Under such conditions, market value or replacement cost at any point represents the cumulative reproduction cost to that point, without including any element of profit on any function involved.

Thus far it has been assumed that replacement cost or market is lower than selling market. However, during the low points in a business cycle such as we are now experiencing, reproduction costs, particularly those of primary commodities, may be higher than selling market. Under these circumstances, a valuation should be made which will not be higher than net realizable value, that is to say, the selling market less estimated selling expenses. While general practice would not require a further reduction to allow for a margin of profit, such action would be very acceptable from the standpoint of conservatism.

Any discussion of inventory valuations is incomplete without some reference to the subject of by-products. There is probably no other class of inventory for which there are such extremes in the viewpoints as to what constitutes a proper basis for valuation. Some hold that by-products should be valued at net realizable value, while others contend that in view of the nature of the products, values should be taken into account only at the time of sale or other disposition. Between these extremes will be found numerous arbitrary valuations. The general principle to be followed, however, is to value by-products at their current net realizable value; such value should in turn be used in computing the replacement cost of the principal product of the process from which they result.

Goods are of so many types and the production and operating methods are so varied that it is impossible, in a brief review such as this, to cover all problems encountered in valuing inventories at the lower of cost or market. It should be remembered that "market" in this connection should always represent the current replacement cost or net realizable value, whichever is lower, and the procedure adopted should produce that result, or at least an approximation thereof.

Although it is conceded in most quarters that the soundest basis for inventory valuation is the lower of cost or market, other bases are still used freely. Therefore, it is essential that, whatever basis of valuation is used, it should be stated clearly in financial statements.

Progress in Accounting Systems

(*Continued from page 23*)

lating devices, makes it possible to combine check writing, billing, or pay roll preparation with journalizing, ledger posting, and a variety of other operations. This makes for accuracy and automatic proof, and avoids sorting and duplication of effort.

Mechanical sorting and tabulating devices now perform wonders that make these machines seem almost uncanny in operation, and include the

printing of names and descriptions. These machines can be connected by cables to other accounting machines, thus producing punched tabulating cards automatically.

A recently perfected device photographs checks, sales tickets, or any document, on miniature film, so compactly that 8,000 such photographs may be permanently recorded on a single 100 foot spool of such film at the rate of 80 to 125 per minute. These miniature pictures may then be readily projected to full or readable size where reference thereto is required. By this means, banks may retain a permanent record of paid checks or deposit slips. Stores may retain a record of sales tickets and send the original with a summary tape or statement to customers, and thus greatly simplify the posting of customers' accounts. Many other applications of this device suggest themselves, including the great reduction of general filing space by photographing documents instead of preserving them in inactive files.

A recent announcement states that a mechanical-electrical "eye" has been perfected that will "read" and sort millions of printed cards at an almost incredible rate of speed. Its possible use in sorting and classifying checks, bills, tickets, and other records suggests a wide range of application.

These mechanical devices are a part of the contribution of science and invention to modern office and accounting methods, and their application affords a fertile field for the constructive accountant to render a great service to clients.

Prevention of Stock Failures

(*Continued from page* 19)

to any great extent in syndicate participations, it is quite possible that a sudden and drastic decline in the market value of the securities, in which they are interested, could result in a failure.

The San Francisco Stock Exchange requires at least one questionnaire a year to be certified by a certified public accountant. This appears to be the only stock exchange in this country which has thus far taken a step forward in this direction. Many of the members of the New York Stock Exchange now employ certified public accountants to audit their books and prepare their responses to questionnaires but this is not a compulsory regulation of the exchange. It is permissible for the broker's own office staff to make the audit and prepare the response to the questionnaire of the New York exchange, if the audit is made in the manner outlined by the Committee on Business Conduct of that organization.

A number of the large surety companies have incorporated clauses in their blanket bonds for brokers to the effect that the accounts shall be audited, at least, once a year by certified public accountants and also that, in connection with such audits, second or third requests for confirmation of customers' accounts are to be sent by registered mail to all customers who have not responded to previous requests. As a confirmation of the fact that such an audit has been made the surety company usually requests the certified public accountant to issue a certificate directly to it outlining the scope of the audit.

It is gratifying that certified public accountants have had a part in cooperating with the stock exchanges and their members in carrying out the questionnaire plan, the operation of which is doubtless entitled to considerable credit for the avoidance of any large number of failures among stock brokers.

Notes

While on the Pacific Coast during the present month, Mr. Sweet addressed the Harvard Business School Alumni in Los Angeles and San Francisco, and the students of the California Institute of Technology in Pasadena.

Mr. Frederick J. Knoeppel has been elected President of the Los Angeles Chapter of the Society of Industrial Engineers.

Mr. John J. Cordner, of the New York office, recently obtained his C.P.A. certificate from the New York State Society of Certified Public Accountants, having previously successfully passed the examination held by that body.

Mr. E. E. Wakefield, of our Boston office, attended the National Tax Conference in Atlanta, Georgia, during October. The August issue of the *Income Tax Magazine* contains an article by Mr. Wakefield on "Taxable Income from Partnerships", as well as a good portrait of the author.

Mr. C. M. Noble, of our Boston office, attended the New England Tax Conference at Rangeley Lake, Maine, during September.

Mr. F. W. Yeager, of our Dallas office, has been appointed instructor in the Y. M. C. A. Night School of Accounting.